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Fast-lane lifestyle in Silicon Valley breeds spies, thieves, drug dealers

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Second of two parts

SANTA CLARA, Calif. — Silicon Valley's electronics industry has spawned a new class of high-technology criminals including thieves and drug dealers who trade computer chips for cocaine.

High-technology crime also is committed by executives who sell trade secrets and steal millions of dollars in computer chips, and engineers who engage in industrial and military espionage, according to local law enforcement officials and experts on the region.

This new wave of crime has paralleled the growth of the area electronics industry. Local officials have begun to crack down on the high-tech criminals and drug dealers of Silicon Valley at the urging of once indifferent companies stung by theft and drug problems.

High-tech crime falls into three categories, according to Doug Southard, deputy district attorney for Santa Clara County: trade secrets cases, computer crime, and computer microchip theft. A microchip is a miniature electronic processor etched into a tiny wafer of silicon, and is the major component of electronic products ranging from computers to digital wrist watches.

"The semiconductor industry only started in 1969 and it has grown like crazy," Mr. Southard said. "When they say 'gold rush,' it really was. It was capitalism run amok in a way — a highly competitive, cut-throat market where prices keep falling, and it's insanely competitive."

Silicon Valley is considered the cradle of the U.S. electronics industry and is located along the shores of the southwest tip of San Francisco Bay. The industry boom there produced scores of millionaires described as "T-shirt tycoons," engineers who wear jeans and tennis shoes and in some cases have net worths close to $400 million.

Along with the boom came "fast-lane" lifestyles accompanied by widespread abuse of illegal drugs — especially cocaine and amphetamines — and a rise in crime. Local officials estimate that 20 percent of the valley's population is involved in some form of substance abuse — with cocaine the "drug of choice."

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Mr. Southard heads the nation's only task force devoted exclusively to catching high-tech criminals. He patrols an industry with a broad criminal element, including one janitor who tried to steal thousands of dollars worth of microchips simply by stuffing them in a small box, and a young executive who was caught stealing computer disk drives to support an expensive cocaine habit.

Valley companies once regarded chip theft, stealing trade secrets and drug abuse as "in-house" matters that could be bad for business if brought to the attention of police. In the last five years, however, attitudes toward crime in the multibillion-dollar industry have changed, Mr. Southard said. Companies have begun to cooperate more with local law enforcement officials, he said.

"The industry has matured and that's been a major factor in the currently improved security situation," Mr. Southard said during an interview at the headquarters of DATTA — for District Attorney's Technology Theft Association.

Last year, the California legislature provided $230,000 to start DATTA's two-year pilot program which trains local police to investigate technology-related crimes. Program participants learn, for example, the intricacies of serving a search warrant on what Mr. Southard described as "the memory of a DEC VAX 1170 mainframe computer running a VS operating system."

Santa Clara County has handled more than 150 high-technology crime cases since 1980, including more than 100 cases of microchip theft, Mr. Southard said.

Meanwhile, illegal drug use has reached major proportions in Silicon Valley and matches the problems found in major urban centers such as New York and Los Angeles, he said. Over the last few years, officials have discovered a startling relationship between high-tech crime and illegal narcotics abuse, according to Mr. Southard, who at one time questioned the connection.

"I kind of pooh-poohed the idea even though I used to be on the narcotics team and I'm kind of death on dope," Mr. Southard said. "Since that time, I've looked at cases a little more closely and I would say that in just about virtually every case involving chip theft and equipment, cocaine works in somewhere."

That judgment is supported by Sunnyvale Police Chief Jess Barba, who said cocaine has been involved in most technology theft cases his department has handled. There has been an increase in cases where criminals exchange cocaine directly for stolen electronics equipment, he said.

"That's just the going thing right now," Mr. Barba said. "The motivation of the person that steals it will be to get the cocaine, [but] the motivation of the person that's paying [in] cocaine to get the equipment might be totally different."

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He estimated that 20 percent of the people in Sunnyvale are involved in alcohol or narcotics abuse and said the same percentage applies to Sunnyvale's 5,000 high-tech workers. Of that group, 10 to 15 percent abuse cocaine, he said.

Those statistics coincide with a U.S. government survey on cocaine abuse released last month which found that "cocaine is still . . . associated with those with high incomes" — the 15 percent of the population that includes corporate executives, salesmen, business owners and professionals who earn more than $50,000 a year. Of cocaine users surveyed in that income category, 18 percent said they stole from "work, family and friends" to support their habits, the report said.

Michael Malone, author of "The Big Score," provides a detailed account of Silicon Valley's fast-lane lifestyle, including many aspects of its darker side. He described the valley's drug abuse problem as "very serious," although it varies from one company to another.

"In some companies there is very little, but in other companies, 75 percent of the assembly line is doing speed," said Mr. Malone, a valley native and journalist.

Mr. Southard recounted how police recently found an electronics industry "junior executive" snorting cocaine as he tried to sell stolen IBM disk drives to undercover officers.

High-tech theft is so widespread it is difficult to quantify, Mr. Barba said.

"The problem is only as big as you're aware of it," he said. "And I'm not sure we've really discovered how much of it is going on."

Sunnyvale, with a population of about 112,000, has the largest concentration of electronics manufacturers in the half-dozen communities that comprise Silicon Valley. Since the industry boomed in the late 1970s, it has been the site of several landmark high-tech criminal cases.

One of the largest thefts occurred in 1981, when thieves linked to an electronics executive stole $3.2 million worth of computer chips from Monolithic Memories in Sunnyvale. At the time, only seven Sunnyvale police detectives were available to investigate the case, none of whom were experienced in the field of high-tech crime.

Since then, state and federal law enforcement agencies have moved into the valley to help. Today, two state agencies and four federal agencies — the FBI, the U.S. Customs Service, the Commerce Department and the Drug Enforcement Administration — maintain offices in the region to assist local law enforcement officials.

Mr. Barba said investigating high-tech crime is difficult since police must react very quickly in each case. The extremely fast-paced industry often churns out innovative microchips and computers faster than markets can absorb them, he said.

"The timing for when a piece of information or technology is of value has a very short window," he said. "A particular chip may be worth a million dollars today and not worth anything tomorrow because something better has come up."

Mr. Southard cited the case of Peter Gopal as one of the major criminal cases that contributed to a greater awareness of high-tech crime in the valley. A valley electronics merchant, Mr. Gopal in 1978 tried to sell trade secrets from National Semiconductor to the Intel Corp., a firm often described as "the Cadillac of semiconductor manufacturers."

Investigators discovered that Gopal's business partner was Rudolf Sacher, an Austrian businessman who was working for the East German intelligence service. The two men had sold microchip plans to the Soviet bloc through dummy Swiss and Austrian trading companies.

Investigators uncovered evidence that Gopal had been in contact with Soviet agents of the State Committee for Science and Technology, which the CIA described in a report issued last month as the "central processor" in a Soviet program to obtain Western technology for military use.

Mr. Southard said the Gopal case was "a real eye-opener" for Silicon Valley companies.

"This was industrial espionage, not military espionage, at a basic level," Mr. Southard said.

But Mr. Southard noted that there was a connection between the Gopal case and the espionage case of Silicon Valley engineer James Durward Harper Jr., who was convicted in 1983 of selling U.S. ballistic missile secrets to a colonel in the Polish intelligence service.

The colonel, Zdzislaw Pryzchodzien, was operating under cover as a Polish Ministry of Machine Industry official and passed the missile secrets to the Soviet Union, according to federal officials.

"The Polish trade ministry official that Gopal worked with is the same . . . Polish secret police colonel who was James Harper's spy connection," Mr. Southard said.

Gopal was suspected of illegally exporting semiconductor test equipment and other electronics hardware to Poland, although he was not prosecuted for those offenses, Mr. Southard said. His conviction for the attempted sale of trade secrets was upheld by a California appeals court in August, Mr. Southard said.

"The Gopal case was pretty vivid," Mr. Southard said. "It displays the fact that the East bloc is interested not just in military trade secrets, but they are even more interested in industrial trade secrets."

Mr. Malone agrees that Silicon Valley is a major target for Soviet-bloc espionage, but that for industrial espionage the Soviets do not have to send agents to the area.

"It's just too easy a target," he said. "They can go to all the trade conventions, subscribe to all the magazines, look at the patent records and just order parts from a distance — and they can get just about anything they want to out of this valley."

A vast underground economy grew along with the electronics industry during the late 1970s. It became a "gray market" sustained by independent brokers who provide an outlet for stolen electronics equipment.

During economic booms, these electronics brokers — called "schlockers" in valley vernacular — can reap huge profits from microchips that are in particularly high demand. The brokers slip into the underground economy where $9 microchips can be resold for $350 in motel rooms, no questions asked.

Mr. Malone describes the gray market as "sort of the flip side of entrepreneurism."

Gray marketeers do not steal electronics equipment regularly, but "just do it when the opportunity presents itself," he said. "Most people aren't in the gray market permanently."

"The unfortunate thing is that everything is so beautifully set up now that they could be stealing stuff that ends up in Soviet ICBMs — that's what's bad about it all," said Mr. Malone.

Mr. Malone said the gray market is like "an underground river of parts moving in and out of Silicon Valley [that] has many sources and many mouths."

"It swells and diminishes according to the state of the industry," he said. "When things are booming, it's a roaring river; when things are bad, it's just a stream."

With the current economic slump in Silicon Valley, Mr. Southard said the center of gray-market activity "moved offshore" to Asia.

Local officials said the Silicon Valley underground runs the gamut from "yuppie" industry executives strung out on cocaine to motorcycle gangs that sell amphetamines in computer factory parking lots.

There is also evidence that a quasi-terrorist group known as the Black Guerrilla Family deals in stolen electronic equipment. Officials have linked the group to the East Coast-based Black Liberation Army, which was involved in the 1981 Brinks armored car robbery and murder in Nyack, N.Y.

Mr. Malone said Silicon Valley's only hope to remain the world's leading high-tech innovator is for the industry to "keep pushing the state of the art outward."

"If we ever falter, we're such a leaky vessel of technological information the rest of the world will catch up with us almost overnight," he said.

Mr. Southard agrees, and hopes Silicon Valley will recognize the need to protect its "intellectual property."

"If you look at the whole thing from a historical perspective, you can see that the capital that's driving the most active part of capitalism in our society — the high-tech industry — is no longer the same as the capital of the 19th century," he said. "The capital of the 20th century is ideas. Ideas drive companies, and are the assets of a high-tech company more so than physical plants or raw materials or the labor force."

"Karl Marx would probably have a hell of a time trying to figure that out," he said.